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Reeflex Petroleum Technologies Inc.

ANNUAL GENERAL REPORT

For the Year Ending June, 1996

REEFLEX
PETROLEUM
TECHNOLOGIES INC.

8636 - 53 Avenue
Edmonton, Alberta T6E 5G2
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PRESIDENTS REPORT TO SHAREHOLDERS

Dear Shareholder,

Fiscal 1996 has been an active and productive period for Reeflex Petroleum Technologies Inc. The Company has doubled its interest in the Chauvin South property as well as commenced a drilling program on those lands. In November of 1995 the property's water flood program was also reworked and put back on line. Early in 1996, management also substantially restructured the Company's cost base. The goal was to reduce G&A expenses and that task has in fact been completed.

In September 1995 Reeflex finalized the purchase of a further 36% interest in the Chauvin property for $500,000 and 100,000 Reeflex shares. This increased the Company's ownership in the field to over 72% and doubled its cash flow. Unfortunately the reestablishment of the water flood program and the upgrading of the field equipment had a negative effect upon the companies profits for the year. However, at present we believe that the bulk of these expenditures are behind us and accordingly the Company's profits should be decidedly positive through the coming year.

The Company has also embarked upon its drilling program and early results are quite promising. The first well in the program was drilled in June 1996 and it is currently producing between 50-60 bbls/day. The second well in the program is slated for mid-November 1996 and the final two wells for the first 1/4 of 1997. It is our belief that the first stage of this program will, at minimum, double the Company's production from the Chauvin field. Upon the completion of the first stage of the drilling program our data will be reevaluated and drilling targets for the second stage established. It is our belief that a substantial amount of drilling is necessary to bring the property to its full potential. Originally the company had planned on drilling a horizontal test well in stage one of the drilling program. Due the geological indicators we have decided against this at this point and instead committed to both vertical and development wells for this stage of the program.

Reeflex is presently looking at three separate acquisitions, both locally and abroad. The prospects themselves are quite exciting, but negotiations are still ongoing with no definitive

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agreements yet in place. Management will continue to pursue further acquisitions as we see this to be an integral part of the Company's continued growth and prosperity.

You will also find included in your information package a copy of our First Quarter Report for fiscal 1997. I believe 1996 was very much a transition year for the company, and I think this is indicated in the Quarterly Report. As you will note, expenses are down and net revenues up. This is a trend that management is committed to maintain and all projections indicate a strong growth year ahead.

In the coming year I look forward to the challenges ahead, both in further developing our existing property as well as cementing new acquisitions for the Corporation. Accordingly, these benefits will be passed on to you, the shareholder.

Sincerely,

Trevor Myler
President, CEO & CFO

Consolidated Financial Statements of

Reeflex Petroleum Technologies Inc.

June 30, 1996

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REEFLEX PETROLEUM TECHNOLOGIES INC.

June 30, 1996

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Kingston Ross Pasnak
CHARTERED ACCOUNTANTS

Telephone (403) 425-0636
Fax (403) 429-4817

September 20, 1996
Edmonton, Alberta

Auditors' Report

Martin K. Anderson*, B.Comm., CA
Barth W. Bradley*, B.Comm., CA
Ronald G. Brunet*, B.Comm., CA
Neil Cockburn*, B.Comm., CA
James M. Gillespie*, B.Comm., CA
Harold M. Kingston*, B.Comm., CA
Kenneth M. Pasnak*, B.Comm., CA
Brian D. Rosser*, B.Comm., CMA, CA
Mike Van Steenbergen**, CA
Peter M. Kule, CA (Retired)

* Denotes Professional Corporation
** Denotes Associate

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with affiliated offices worldwide

To the shareholders of Reeflex Petroleum Technologies Inc.:

We have audited the consolidated balance sheet of Reeflex Petroleum Technologies Inc. as at June 30, 1996 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Kingston Ross Pasnak.

Kingston Ross Pasnak
Chartered Accountants

REEFLEX PETROLEUM TECHNOLOGIES INC.

Year ended June 30, 1996

	1996	1995
PRODUCTION REVENUE	**$ 683,466**	**$ 480,078**
PRODUCTION COSTS		
Operating expenses	411,320	293,955
Freehold and crown royalties	119,792	82,442
Depletion	28,621	3,032
Site restoration	7,747	-
Royalty tax credits	(3,457)	(1,961)
	564,023	377,468
GROSS PROFIT	119,443	102,610
EXPENSES		
Consulting fees	45,332	35,110
Salaries and benefits	40,427	5,307
Management fees	36,000	72,000
Amortization	35,067	7,951
Travel and promotion	31,126	36,571
Interest on long-term debt	30,161	-
Legal and audit fees	23,560	14,117
Investor communications	21,613	67,779
Office and sundry	19,096	22,854
Corporate fees	9,340	7,486
Engineering	2,944	25,453
	294,666	294,628
NET LOSS	**(175,223)**	**(192,018)**
(DEFICIT) RETAINED EARNINGS, BEGINNING OF YEAR	(151,867)	40,151
DEFICIT, END OF YEAR	**$ (327,090)**	**$ (151,867)**
NET LOSS PER SHARE	$ (0.03)	$ (0.04)

Consolidated Balance Sheet

REEFLEX PETROLEUM TECHNOLOGIES INC.

June 30, 1996

	1996	1995
ASSETS		
CURRENT ASSETS		
Cash	$ 54,703	$ 153,676
Accounts receivable	42,014	26,770
Goods and services tax recoverable	20,514	13,479
Prepaid expenses	9,729	-
	126,960	193,925
DEFERRED ACQUISITION COSTS (Note 3)	22,447	-
CAPITAL ASSETS (Note 4)	113,113	29,604
RESOURCE PROPERTIES (Note 5)	591,383	31,345
INVESTMENTS (Note 6)	2	-
	$ 853,905	$ 254,874
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 171,493	$ 5,486
LONG-TERM DEBT (Note 7)	500,000	-
SITE RESTORATION COSTS	42,747	35,000
	714,240	40,486
SHARE CAPITAL (Note 8)	466,755	366,255
DEFICIT	(327,090)	(151,867)
	139,665	214,388
	$ 853,905	$ 254,874

APPROVED BY THE BOARD

_____ Director

_____ Director

Consolidated Statement of Changes in Financial Position

REEFLEX PETROLEUM TECHNOLOGIES INC.

Year ended June 30, 1996

	1996	1995
OPERATING ACTIVITIES		
Net loss	$ (175,223)	$ (192,018)
Items not affecting cash flow:		
Depletion	28,621	3,032
Amortization	35,067	7,951
Site restoration	7,747	-
	(103,788)	(181,035)
Net change in non-cash working capital	134,000	35,723
	30,212	(145,312)
INVESTING ACTIVITIES		
Deferred acquisition costs	(31,081)	-
Investment in private companies	(2)	-
Purchase of capital assets	(109,943)	(3,364)
Purchase of resource property	(439,000)	-
Exploration and development costs	(149,659)	-
	(729,685)	(3,364)
FINANCING ACTIVITIES		
Proceeds of long-term debt	500,000	-
Issuance of shares	100,500	-
	600,500	-
CASH REQUIRED	(98,973)	(148,676)
CASH, BEGINNING OF YEAR	153,676	302,352
CASH, END OF YEAR	$ 54,703	$ 153,676

REEFLEX PETROLEUM TECHNOLOGIES INC.

June 30, 1996

Note 1 Description of Business

The Company was incorporated under the Alberta Business Corporations Act on December 3, 1992 and is listed for trading on The Alberta Stock Exchange. On March 31, 1993 the Company acquired an interest in a producing oil and gas property from companies controlled by directors of the Company . On September 12, 1995 the Company acquired a 100% ownership in 665416 Alberta Ltd., which has an interest in the same producing oil and gas property.

Note 2 Significant Accounting Policies

Significant accounting policies observed in the preparation of the consolidated financial statements are summarized below. These policies are in accordance with generally accepted accounting principles.

Consolidation
These financial statements include the accounts of the Company and its wholly owned subsidiary, 665416 Alberta Ltd. All significant intercompany balances and transactions have been eliminated.

Joint Ventures
All of the Company's production, exploration and development activities are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Deferred Acquisition Costs
Indirect costs including professional and other fees related to the acquisition of 665416 Alberta Ltd. are stated at cost and are being amortized on a straight-line basis over three years.

Capital Assets
Capital assets are recorded at cost. The Company provides amortization on its capital assets using following methods and rates:

	Method	Rate
Oilfield equipment	Diminishing balance	20%
Computer equipment	Straight-line	5 years
Automotive equipment	Diminishing balance	30%

REEFLEX PETROLEUM TECHNOLOGIES INC.

June 30, 1996

Note 2
Significant Accounting Policies
continued. . .

Resource Properties
The Company follows the full cost method of accounting for oil and gas properties whereby all acquisition, exploration and development costs are capitalized. Resource properties acquired from related parties are recorded at the lower of cost and the carrying value of the property in the accounts of the vendors.

The Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed the estimated future net revenues from production of proven reserves, at prices and operating costs in effect at the year end.

Costs accumulated are depleted using the unit-of-production method based upon estimated proven reserves.

Investments
The investment in shares of private companies are stated at cost. The investees are bare trustee companies, operate on a break-even basis and have no assets or liabilities of their own account.

Site Restoration Costs
Estimated future costs, net of expected recoveries, for the dismantling and abandonment of well sites are accrued based on remaining reserves of the Company's interest in the resource property. Actual costs incurred are applied against the deferred site restoration costs.

Note 3
Deferred Acquisition Costs

	1996	1995
Professional fees	$ 15,759	$ -
Title opinion	10,322	-
Financing fees	5,000	-
	31,081	-
Accumulated amortization	8,634	-
	$ 22,447	$ -

Amortization provided for in the current year totalled $8,634; (1995 - $nil).

REEFLEX PETROLEUM TECHNOLOGIES INC.

June 30, 1996

Note 4
Capital Assets

	Cost	Accumulated Amortization	1996 Net Book Value	1995 Net Book Value
Oilfield equipment	$ 106,998	$ 17,833	$ 89,165	$ -
Computer equipment	40,738	18,290	22,448	29,604
Automotive equipment	2,000	500	1,500	-
	$ 149,736	$ 36,623	$ 113,113	$ 29,604

Amortization provided for in the current year totalled $26,434; (1995 - $7,951).

Note 5
Resource Properties

	1996	1995
Undivided 72.09% interest in the "Chauvin" property		
1993 acquisition of 35.69%	$ 100,000	$ 100,000
1996 acquisition of 36.40%	439,000	-
Drilling and completion costs	149,659	-
	688,659	100,000
Less accumulated depletion	97,276	68,655
Net book value	$ 591,383	$ 31,345

The 1993 acquisition of a 35.69% working interest in the "Chauvin" property was purchased by way of share consideration at its independently appraised value of $460,000. However, the property is recorded at $100,000 being the carrying value of the resource property in the accounts of the related party vendors.

Depletion provided for in the current year totalled $28,621; (1995 - $3,032). No depletion is provided on the drilling and completion costs as this well commenced production after the year-end.

REEFLEX PETROLEUM TECHNOLOGIES INC.

June 30, 1996

Note 6 Investments

	1996	1995
Investment in common shares of private companies:		
Avord Oil & Gas Ltd. (25%)	$ 1	$ -
Sparky Oilfield Services Ltd. (25%)	1	-
	$ 2	$ -

Note 7 Long-Term Debt

	1996	1995
Production loan with interest at prime plus 1 1/2% per annum paid monthly, with no fixed terms of repayment, secured by a general security agreement over all accounts and property as well as a demand debenture and caveat for $1,250,000 covering the resource properties.	$ 500,000	$ -

Subsequent to the year-end the Company obtained additional loan advances in the amount of $100,000.

Note 8 Share Capital

	1996	1995
Authorized:		
Unlimited number of common shares		
Unlimited number of preferred shares		
Issued:		
5,315,998 common shares; (1995 - 5,040,998 shares)		
- for cash - 1,375,998 shares; (1995 - 1,200,998 shares)	$ 332,220	$ 279,720
- for debt conversion - 2,000,000 shares; (1995 - 2,000,000 shares)	21,535	21,535
- for resource property - 1,940,000 shares; (1995 - 1,840,000 shares)	113,000	65,000
	$ 466,755	$ 366,255

REEFLEX PETROLEUM TECHNOLOGIES INC.

June 30, 1996

Note 8
Share Capital
continued. . .

During the year the Company issued the following common shares:

a) 100,000 shares at a price of $0.48 per share as partial consideration for the acquisition of 665416 Alberta Ltd.

b) 100,000 shares at a price of $0.30 per share, representing the exercise of stock options previously granted to the Company's agent.

c) 75,000 shares at a price of $0.30 per share, representing the exercise of stock options by a director of the Company.

The Company had granted 500,000 common shares under a "Directors and Management Stock Option Plan", under which the options could be exercised at $0.30 per share until December 20, 1995. During the year, 75,000 of these share options were exercised. The plan expired on December 20, 1995 and the remaining options were cancelled.

The Company set up a new "Stock Option Plan" on January 31, 1996, pursuant to which 425,000 common shares can be exercised at $0.50 per share until January 31, 2001. Subsequent to the year-end additional options were granted for 44,599 common shares at $0.44 per share until January 31, 2001.

In addition, the Company has granted to a consultant an option to purchase up to 52,000 common shares at $1.04 per share, exercisable no later than February 8, 1997.

Pursuant to an escrow agreement dated December 20, 1993, 3,000,000 of the issued common shares were held in escrow. These shares may be released from escrow only on the written consent of the Alberta Securities Commission. To date, 999,999 common shares have been released leaving a balance of 2,000,001 common shares held in escrow as at June 30, 1996. No escrowed shares were released during the current year.

REEFLEX PETROLEUM TECHNOLOGIES INC.

June 30, 1996

Note 9
Income Taxes

Future Tax Benefits
As at June 30, 1996 the Company has certain balances available for tax purposes in excess of those recorded in the financial statements which may be used to reduce future taxable income, consisting primarily of:

- Excess of amortization over amounts claimed for tax purposes		$ 26,537
- Share issuance and financing costs deductible for tax purposes		21,116
- Losses carried forward for income tax purposes that will expire in the following years:	2000	16,369
	2002	253,171
	2003	236,389
- Other amounts deductible for tax purposes		18,590
Less: excess of book value over tax value of resource properties		(264,343)
		$ 307,829

The future tax benefit pertaining to these balances has not been recognized in the financial statements as it is not virtually certain that these balances will be utilized.

REEFLEX PETROLEUM TECHNOLOGIES INC.

June 30, 1996

Note 10
Related Party Transactions

a) The operators of the Company's resource property are companies having shareholders in common with this Company. Fees in the amount of $189,778; (1995 - $165,500) were paid to these operator companies.

b) Management fees in the amount of $36,000; (1995 - $72,000) were paid to a shareholder company.

c) Consulting fees and salaries for management, financial and computer services in the amount of $39,000; (1995 - $27,420) were paid to a shareholder and a company controlled by the shareholder. This shareholder is also a director and officer of the Company.

d) The directors were reimbursed through shareholder companies for costs incurred on behalf of the Company in the amount of $22,804; (1995 - $36,571). These costs primarily relate to travel expenses incurred.

e) Drilling materials costing $7,970; (1995 - nil) was purchased from a shareholder company.

f) Accounts receivable at the year end includes the following amounts:

- $32,444; (1995 - $22,262) from the operator of the resource property for the Company's share of net production.

- $6,113; (1995 - nil) from the operator of the resource property for miscellaneous payments made on their behalf.

g) Accounts payable at the year end includes the following amounts:

- $13,697; (1995 - nil) to the operator of the resource property for the Company's share of petroleum taxes.

- $149,659; (1995 - nil) to the operator of the resource property for the Company's share of expenses to drill and complete a new well.

REEFLEX PETROLEUM TECHNOLOGIES INC.

June 30, 1996

Note 11
Contingency and Commitment

Contingency

The Company received a statement of claim by the personal representative of the estate of a former director. The statement of claim alleges that the company wrongfully refused to accept a notice of exercise and issue 125,000 shares at $0.30 per share, granted under an option to the deceased. The plaintiff is seeking that the option be exercised and the shares issued, or alternatively, damages in the amount of $150,000.

Management is of the view that the claim is not enforceable for various reasons, including that the option was not properly exercised, that the amendment to the option is invalid because it lacked the requisite signatures thereto, and therefore the claim is not enforceable. Additionally, management understands that the plaintiff recently reduced its alternate claim for damages, on a without prejudice basis, to $18,500.

Accordingly, this claim has not been accrued in these financial statements.

Commitment

The Company is committed under the terms of a five year employment contract to payments of $36,000 per annum, expiring December 31, 2001.

Note 12
Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation. The prior year's figures were audited by another firm of chartered accountants.